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State of Vermont
OFFICE OF THE GOVERNOR
Governor's Budget Address
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Mr. President, Madame Speaker, Members of the General Assembly, fellow Vermonters:

Several years ago, growth in our state's economy was restrained by the forces of a global economic downturn and made worse by our state's reputation as a difficult place to do business and create jobs.

By working together to confront the challenges of the times, we reversed our direction and put Vermont back on the path to prosperity. We have reduced barriers to job creation, balanced the budget, and moderated the tax burden.

We've replenished the state's depleted rainy day funds; we've invested in higher education, public safety, and economic development; and we've made historic commitments to protecting and improving our environment.

Today, because of our commitment to commonsense reforms and steady progress, our economy is strong and it is getting stronger.

Now we face challenges of a decidedly different scope than those we have confronted in the past. If we fail to act—if we fail to lead—the situation will be far worse in the years ahead.

So I come before you with a budget that is honest in its discussion of our challenges, creative in its possible solutions, compassionate in its commitment to our most vulnerable, and balanced on the bottom line.

With a strong economy has come strong growth in state revenues. However, the unsustainable expansion of a variety of state programs has set us on a dangerous course. So severe is this situation that it threatens to disable, or worse dismantle, fundamental programs and services throughout government.

Vermont's Medicaid program is among the most generous in the nation, but today we are facing a record annual deficit of over \$70 million in fiscal year 2006. Left unrestrained this deficit would explode to more than two hundred seventy million dollars within two fiscal years. The forecasts beyond that paint a picture that is dire and worsening.

If we do not act quickly and decisively, the future of our Medicaid program will be seen in the drama unfolding right now in Tennessee. Met with many of the same challenges as we have, Tennessee now faces the most austere reforms: dropping 320,000 people entirely off the program and reducing coverage to another 390,000 people.

Without real reform, this is a sign of things to come in Vermont.

Doing nothing is not an option. Like Tennessee, we'd be forced to cast thousands into the ranks of the uninsured, exacerbating our health care dilemma, and leaving our most vulnerable unprotected.

Raising taxes is not an option. To cover these record deficits, we would need to levy dramatic tax hikes. Vermonters are already taxed enough and higher taxes would threaten to reverse our recent success of putting people back to work. The fact is we could not raise taxes fast enough or high enough to solve this problem.

Cobbling together a single year solution is not an option. Another single-year solution would only intensify our problems in the following year and make the hard decisions even more difficult.

Our only option is to join together and confront these challenges honestly and directly this year. This challenge will require us to set reasonable limits and make some tough choices. We will root out waste, reform programs, and reorganize departments – not just in Medicaid – but all throughout state government.

Together, we can protect the most vulnerable Vermonters; we can safeguard fundamental programs and services of government; and we can secure the economic future of our families and our communities. But to do so, we must – together – save Medicaid first.

Our Medicaid program struggles under the weight of four principal pressures.

First, policies that pressed more Vermonters into this government-run program have driven utilization, program costs and other inflationary pressures far beyond our ability to pay.

Second, continued expansion of the program beyond its traditional services exacerbated fundamental flaws in the financing systems and encouraged a series of short-term budgetary fixes that have only intensified the current problem.

Third, based on a formula established in the 1960's, as Vermont's economy strengthens and the average income of Vermonters increases as compared to the national average, federal support for the program declines.

Finally, revenue sources dedicated to Medicaid have failed to grow at the same rate as the program's expenses.

As a result of these factors, the Health Access Trust Fund and the entire Medicaid program are on an unsustainable course.

Consider that in the current budget year alone, we have dedicated to the Medicaid program \$19 million of surplus funds simply to alleviate existing pressures. In the budget I am proposing, we will supply an additional \$20 million in one-time funding on top of our proposed changes. Without the necessary reforms, Medicaid will continue to consume surpluses and deprive necessary resources to other important government services.

While the prognosis is severe, the remedy is at hand.

To restore the financial integrity of these important services, my administration is proposing fundamental structural changes in the Medicaid program. Our strategy is comprehensive and forward thinking, and shares the burden of these changes with all parties – participants, providers and government partners. While we've detailed the plan in a separate Medicaid briefing book that will be distributed to you, I will highlight the primary areas.

First, we must initiate a global commitment to Medicaid. We are aggressively working with the federal government to forge a partnership that would help Vermont achieve fiscal predictability and will make substantial progress in bringing the Medicaid deficit under control. In addition, with a global commitment, Vermont would have the flexibility to modernize many aspects of the health care delivery system, such as implementing closer management of long-term care and to make wider use of the Chronic Care Initiative for patients suffering lifelong health conditions.

Second, we must make changes to the program that increase participant contributions and limit program expenses. We will seek changes in the pharmacy drug benefit to expand preferred drug lists and provide financial incentives to beneficiaries who switch from brand name to generic drugs. We will also ask for limited premium increases from recipients based on ability to pay. This plan does not seek additional premiums from the most vulnerable Vermonters – individuals with very low incomes or the aged, blind, or disabled.

Finally, we will ask the medical community – doctors, hospitals and other providers – to be a partner by restraining costs. Their contribution is an essential component to our overall reform.

Taken together, these measures are a wide-ranging, but balanced, reform of Vermont's Medicaid system. We share the responsibility for saving Medicaid among all parties, while ensuring the most vulnerable are protected and that families have access to the care they need. Our plan sets Medicaid on a sustainable path and secures these important programs in the years ahead.

However, these reforms are not without cost. As we push resources to Medicaid, we must pull them from other areas of state government, leaving enough of what we need, but less than we would like.

So we must choose—and we must choose among good things.

As we have seen over the last two years, the best way to finance state government is to continue to create jobs and grow our economy.

That is why my administration has worked very hard to be more responsive to employers and send the unmistakable message that Vermont is open for business. As a result of our efforts, more Vermonters have good jobs and a steady paycheck, and we've created a more stable environment in which the rules are clear and the costs of doing business are becoming more reasonable. Nevertheless, there is much more that we must do.

An educated workforce is a key to attracting and retaining high paying jobs. For Vermont to remain on the path to prosperity we must continue to invest in our people—in their skills, and in their spirit. To be sure that Vermont's workforce is prepared to succeed in the new economy I am recommending an additional half-million dollars for the Vermont Training Program.

To further strengthen the services we provide to both employers and employees, I have proposed merging the Department of Labor and Industry and the Department of Employment and Training.

Together they will form a single Department of Labor that will handle labor issues ranging from unemployment compensation and workforce training to workers' compensation and workplace safety. This new streamlined department will provide better service, a stronger organizational structure and better efficiencies over the long-term.

Recruitment and retention must also remain a key component of our strategy. To further expand the Campaign to Retain at the regional level, we will invest an additional \$150,000 in the efforts of Vermont's Regional Development Corporations.

In order to maintain a healthy and vibrant economy, we are working hard to build a 21st century transportation system by restoring Vermont's roads, bridges and rail lines.

My administration is making changes within the Agency of Transportation that will allow us to direct more resources to the field. In addition, I have proposed that we further reduce the amount of money that is transferred out of the transportation fund for other purposes.

Two years ago we increased spending for road repair by more than 50 percent, increasing our commitment to this essential service by \$11 million. To further improve our roadways, my budget includes a total of \$40 million for paving projects, an increase of more than \$7 million from last year and nearly doubling our commitment to these projects in just two years.

I am also recommending \$54.5 million for critical interstate, state and town highway bridges, \$4.6 million over last year's appropriation; and \$25 million will be invested in the Town Highway Aid Program.

To support other critical infrastructure needs throughout the state, my Capital Appropriations recommendations for fiscal year 2006 total \$49 million. In order to continue to reduce our long-term indebtedness and maintain our double-A-plus bond ratings, we must adhere to the Capital Debt Affordability Advisory Committee's recommended limit of \$45 million in new borrowing. I am therefore recommending that an additional \$4 million from the general fund be allocated to address critical capital construction needs throughout the state.

To promote smart land use, protect and improve our environment and achieve meaningful job growth, we have adhered to the third way-the Vermont Way.

To continue to protect and improve our quality of life and Vermont's reputation as an environmentally responsible state that is a great place to live and work we will continue to make significant investments in the Agencies of Natural Resources and Agriculture.

In particular, I have proposed that my Clean and Clear Water Action Plan receive \$9.2 million of state operating funds and capital investments. These additional resources will help our farmers—leading stewards of the land—to reduce runoff, conserve land, and protect our watersheds.

We are also investing in improved wastewater discharge, stream bank stabilization, wetland protection and restoration, watershed planning and monitoring, and programs to control erosion from construction sites and back roads.

This represents an increase in overall state support for this important program of 20 percent over the current fiscal year. In addition, we anticipate \$7.5 million of federal funds to support this effort.

We have begun to reverse the long neglect at the Vermont State Hospital.

To maintain our ability to provide the necessary services of this facility, while we review all of our options for the future, I have proposed that we increase the General Fund appropriation for the hospital by \$4.6 million.

To be sure our mental health system is able to meet the needs of Vermonters with mental illness and developmental disabilities my budget pledges a 7.5 percent annual increase for designated agency providers in each of the next several years. This steady and predictable increase in appropriation is designed to cover both inflationary increases and caseload pressures. In addition, I have allocated \$2.4 million from the General Fund to replace declining federal matching funds.

We must, and we will, continue to treat individuals with mental illness and developmental disabilities in our communities.

In recent years, it has been necessary to increase expenditures to improve the capacity and quality of our correctional system.

We opened the Springfield prison, and entered into new out-of-state housing contracts to reduce overcrowding. During the past year, increases in the prisoner population have leveled off due largely to a successful initiative to reduce pre-trial detainees.

To further alleviate prison overcrowding, I am recommending a second work camp for minimum-security prisoners, similar to the current facility in St. Johnsbury.

I propose that we double the number of transitional housing beds around the state for offenders who are eligible for release but are unable to leave jail due to a lack of housing.

My budget includes resources to launch a pilot program using global positioning satellite technology to strengthen community supervision of non-violent offenders.

Finally, I propose that we increase our support for substance abuse treatment and job skill development so that prisoners can improve their lives and successfully reintegrate into our society.

Drug treatment is more cost-effective than incarceration, and spending on prevention programs is an effective way to reduce crime.

I'm very proud that Vermont has acknowledged we are not immune to the human and financial costs of substance abuse – a chronic and progressive disease. We no longer understate the drug problem in our communities, we are being honest about the need to confront this reality, and we have made a great deal of progress.

Communities throughout Vermont have embraced local prevention, treatment, and recovery activities, and we are changing the culture of our state. Steadily we are moving toward a culture where Vermonters—particularly young Vermonters—are empowered with the information they need to make healthy decisions, and our children and their families overwhelmingly reject dangerous drugs.

I am proposing to further the efforts of my Drug Education Treatment Enforcement and Rehabilitation—or DETER—program and provide additional funding for ten new substance abuse counselors in our schools and four more recovery centers.

Substance abuse is also a major drain on our health care resources. Alcohol abuse alone escalates health care costs and accounts for more than 60 percent of Vermonters seeking treatment and 85 percent of the adult population in need of treatment. That is why the DETER program will continue to be a major piece of my health care reform agenda.

We are all acutely aware of the health care challenges facing individual Vermonters and employers alike. So pressing is this issue that I believe immediate action must be taken and progress made. Accordingly, I have challenged this General Assembly to send to me a comprehensive health care reform package by the end of the session this year.

We need to do more than just change how we pay, or who pays, for health insurance. As part of a larger and more comprehensive package, I have offered a responsible health insurance plan that moves us steadily toward universal health insurance coverage, and prioritizes preventative care and policies that will ultimately reduce costs.

True reform will deal with the root causes of rising health care costs, increase affordable options, encourage healthy decisions and preventative medicine, and attack expensive health conditions at their inception before they develop into more serious and more costly ailments.

Chronic conditions—high blood pressure, diabetes, and cardiovascular disease, for example—represent more than 84 percent of our total health care spending, and are the most costly and most preventable medical conditions.

The health care delivery system as it is structured now, however, cannot provide the best care possible for people with chronic diseases. To further our efforts to reduce costs and improve quality, my budget includes additional funding for the Chronic Care Initiative.

My budget also includes increased resources for the Fit and Healthy Kids Initiative, a comprehensive plan to empower Vermont's children with the tools they need to stay healthy throughout their lives. A steady commitment to this effort is one of the most effective ways to reduce the long-term costs and impact of expensive and devastating health conditions.

In addition to lowering future health care costs, the Fit and Healthy Kids program helps to improve student performance. Studies show children who learn to eat well and exercise regularly tend to enjoy learning more and perform better in school.

After all, our children are our most precious resource and, appropriately, education our most significant expenditure.

In the previous biennium Act 68 replaced Act 60. These important reforms repealed the divisive sharing pool, differentiated between homestead and non-residential properties, and lowered property taxes in an overwhelming majority of our communities.

The statewide property tax rate reductions I have proposed for fiscal year 2006 will save property taxpayers \$15.6 million. This is in addition to the \$25.9 million saved last fiscal year, bringing the total property tax savings achieved by Act 68 to more than \$41 million over a two-year period.

Considering the most recent revenue increases to the General Fund, I believe we can work together to further reduce statewide property tax rates this year. We must take every opportunity to ease the oppressive burden of the statewide property tax.

One of the single largest increases in my budget proposal is the \$10 million increase in the General Fund transfer to the Education Fund. This total transfer of \$259 million is our largest General Fund appropriation, and represents more than one quarter of General Fund spending.

There is no doubt that mathematics and computer literacy are the entryway to the high-paying high-tech jobs of the 21st century. To be sure that our state's mathematics curricula include the best instructional techniques, and make the best use of available technology, I am proposing \$300,000 to pursue innovative new mathematics-based computer technologies that can help ensure every student's success in this important subject.

In addition to full funding for the State Employees' Retirement System, I am proposing that we increase support for the State Teachers' Retirement System by nearly 20 percent,

or \$4 million. Furthermore, I am again recommending that the Teachers' Retirement System receive an additional allocation from any existing surplus year-end revenues.

Looking beyond our K-12 system, there is much more we can do to be sure that everyone has opportunities for an education beyond high school. I believe that a higher education, and other opportunities for lifelong learning, should be of the highest quality, affordable and accessible to every Vermonter.

It is the great equalizer--expanding opportunities, increasing marketability, and allowing individuals to earn higher wages.

To build on the progress we've made in the last several years, the University of Vermont, the Vermont State Colleges System, and the Vermont Student Assistance Corporation will each receive a 3 percent increase over last year's appropriation.

Enhancing our ability to protect the lives and property of Vermonters remains a priority for my administration.

Since coming to office, I have supported funding for 26 additional State Troopers. To backfill a reduction in federal funding I have included support for ten trooper positions and remain committed to eliminating vacancies in our State Police force.

Creation of the new Fire Safety Division is adding additional vitality to the Department of Public Safety. We listened and responded to a grass roots proposal from the men and women of the fire service, and we have created a division that will continue to provide high quality customer service and ensure a comprehensive organizational structure for fire prevention, training, and investigation throughout the state.

To further our commitment to the fire services, I am recommending that \$225,000 be invested in the Vermont Fire Service Training Academy to begin design and development of much needed emergency service training programs; and I am again recommending that an additional \$50,000 be added to the Firefighter's Survivor Death Benefit Fund.

This morning, I had the opportunity to express our most sincere gratitude to the men and women of the Vermont National Guard and their supportive families.

The National Guard – and all of our armed forces – is an extended family, a family that cares for each other, supports each other, and bears an extraordinary sacrifice as our nation confronts the threats of global terror. Tonight – and every night – this family will be in our prayers and we give our wishes to the troops for a safe and swift return home.

To reflect our commitment to all of the men and women of the armed forces who have put the welfare of our state and nation above their own, and whose service we must honor, my budget includes support for a variety of programs for our veterans.

I have proposed funding for the military services Tuition Grant Program. We will continue to support the Vermont Veterans Medals program—important representations of our commitment to those who have served.

I have proposed resources to assist survivors of casualties in the War on Terrorism; and we will offer continued support for the Disabled and Needy Veterans Fund.

In my inaugural address I laid out my vision for Vermont a generation from now—a stronger Vermont, a safer Vermont and a more prosperous Vermont. It is a vision founded in the indomitable spirit of our people and in the promise of Vermont that is passed from parent to child to grandchild.

To preserve the health of Vermont's economy for the next generation, we must maintain our allegiance to fiscal sustainability this year, in this budget.

As we work to save Medicaid and reform our ailing health insurance system, we must also advance policies that help the economy grow and employers create more and better paying jobs. We will not forget our commitment to clean air and water, to our children's education, or to our public safety. And we can meet these challenges without raising the tax burden on working families and small businesses.

Our task is challenging, but achievable. The people of Vermont have vested in us their confidence and authority – and they deserve our full effort and our bipartisan cooperation. We will work together with a common purpose to fulfill our common goals and we will not fail them. Together, we'll make Vermont stronger and her people more healthy and prosperous in the years ahead.

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